

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0761-05
Bill No.: HCS for HB 444, 217, 225, 239, 243, 297, 402 & 172
Subject: Elderly; Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue
- Income
Type: Original
Date: February 7, 2007

Bill Summary: Would exempt certain retirement benefits from state income tax for taxpayers 65 years of age or older.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(Approximately \$131,120,215)	(Approximately \$135,129,524)	(Approximately \$138,133,245)
Total Estimated Net Effect on General Revenue Fund	(Approximately \$131,120,215)	(Approximately \$135,129,524)	(Approximately \$138,133,245)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	3.0	3.0	3.0
Total Estimated Net Effect on FTE	3.0	3.0	3.0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

In response to a similar proposal, officials from the Office of the Secretary of State (SOS) stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

In response to a previous version of this proposal, officials from the **Department of Revenue** (DOR) assumed the proposal would allow a deduction of retirement benefits included in the Federal Adjusted Gross Income of a taxpayer. This deduction would require Taxation to add a line to the Form MO-A.

Personal Tax would require 2 Temporary Tax Employee for key-entry, 1 Tax Processing Tech I for every 19,000 returns to be verified by Quality Review, and 1 Tax Processing Tech I for every 2,400 pieces of correspondence. They will also require 2 Temporary Tax Employees for key-entry of 1040P & PTC forms, and 1 Tax Processing Tech I for every additional 5,000 verified returns plus correspondence on the 1040P/PTC forms.

Customer Services would require 1 Tax Collection Technician I for every 15,000 calls a year on the income tax hot line due to lack of documentation and 1 Tax Collection Technician I for every 24,000 calls a year to delinquency/collections due to lack of documentation. They will also need 1 Tax Processing Technician I for every additional 4,800 contacts in the field offices. DOR anticipates most customers will contact the department via phone, therefore, will only request 1 FTE for each of the larger field offices including Kansas City, St. Louis, and Springfield.

In summary, DOR submitted a cost estimate for eight FTE additional staff, and related equipment and expense with a total of \$337,796 for FY 2008, \$361,811 for FY 2009, and \$370,91 for FY 2010. The DOR estimate for a similar proposal in the previous session included only three new FTE. In response to a similar proposal in the previous session (HB 1941, LR 4411-03), DOR assumed the need for three additional FTE Tax Processing Tech I plus four tax season temporary employees.

ASSUMPTION (continued)

Oversight will use the previous year DOR assumption, and will further assume that DOR would be able to implement the proposal with existing IT staff. If multiple provisions are enacted requiring additional staffing or if unanticipated costs are incurred, DOR could request resources through the budget process.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional staff to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. In addition, Oversight has reduced certain equipment and expense items in accordance with Office of Administration budget guidelines. Oversight assumes that the relatively small number of additional staff can be located in existing office space.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) stated that this proposal would permit individual income tax filers to deduct certain retirement benefits from federal adjusted gross income. The proposal would limit the deduction for retirement benefits to social security benefits, social security disability benefits, or benefits received by a taxpayer from a public retirement system or any other retirement system provided the taxpayer is not subject to full social security coverage because the filer participated in the public retirement system. The deduction is also limited to taxpayers 65 years or older.

EPARC stated they were not able to identify the set of taxpayers that meet these conditions. Rather, EPARC calculated the impact of the proposal using the entire group of people 65 and over receiving social security benefits and calculated the impact as if they could deduct the full amount of those benefits from their federal adjusted gross income. EPARC estimated that the deduction of those benefits would result in a reduction in income tax revenues of \$98 million.

Oversight will utilize the EPARC estimate for the reduction in annual Missouri income tax collections resulting from the deduction of social security benefits for taxpayers aged 65 or over. Oversight has obtained benefit payment information from the four large retirement systems that would appear to meet the proposal's criteria for exclusion from tax. If the payments received from those systems were also exempted from Missouri income tax, Oversight assumes that annual Missouri income tax collections resulting from the exemption of those benefits would be reduced by \$33 million per year. Therefore, Oversight estimates the initial annual income tax reduction as \$131 million per year.

ASSUMPTION (continued)

Oversight has analyzed cost of living increases for social security benefits; over the past five years benefits have increased an average 2.72 percent. Oversight assumes that other retirement benefits programs would have similar cost of living allowances. Therefore, Oversight will assume a 2.72% annual increase in lost revenues due to anticipated cost of living increases.

Oversight is not able to estimate the potential for revenue reductions as a result of additional taxpayers filing returns who would not have filed a tax return under existing conditions, and Oversight is not able to determine the potential for revenue reductions due to the impact of this proposal on the existing Circuit Breaker and Homestead Exemption provisions. In addition, this estimate of fiscal impact does not account for the changes in the number of taxpayers who would qualify for the exemption due to aging or migration.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assumed a similar proposal would add no cost to their organization.

This proposal would reduce Total State Revenue.

<u>FISCAL IMPACT - State</u>	FY 2008	FY 2009	FY 2010
<u>Government</u>	(10 Mo.)		
GENERAL REVENUE			

Costs - Department of Revenue

Personal Service (3 FTE)	(\$53,460)	(\$66,077)	(\$68,059)
Fringe Benefits	(\$23,554)	(\$29,113)	(\$29,987)
Tax Season Temporaries	(\$26,650)	(\$32,780)	(\$33,599)
Expense and Equipment	(\$16,551)	(\$1,554)	(\$1,600)
<u>Total Costs - DOR</u>	<u>(\$120,215)</u>	<u>(\$129,524)</u>	<u>(\$133,245)</u>

Loss - Department of Revenue

Revenue reduction due to a deduction for social security benefits for taxpayers 65 years of age or older.	<u>(Approximately \$131,000,000)</u>	<u>(Approximately \$135,000,000)</u>	<u>(Approximately \$138,000,000)</u>
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ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND

	<u>(Approximately \$131,120,215)</u>	<u>(Approximately \$135,129,524)</u>	<u>(Approximately \$138,133,245)</u>
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Estimated Net FTE Change for General Revenue Fund

3.0 FTE	3.0 FTE	3.0 FTE
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FISCAL IMPACT - Local Government

<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
(10 Mo.)		

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

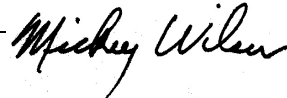
FISCAL DESCRIPTION

The proposal would exempt certain retirement benefits from state income taxes for taxpayers 65 years or older.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
University of Missouri
Economic Policy and Research Center



Mickey Wilson, CPA
Director
February 7, 2007